

FISCAL NOTE

Bill #: SB 4

Title: Accommodations and rental car tax for educational/general funding

Primary

Sponsor: Dan Harrington

Status: As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

	<u>FY2003 Difference</u>	<u>FY2004 Difference</u>	<u>FY2005 Difference</u>
Expenditures:			
General Fund	\$414,619	\$137,575	\$138,755
State Special Revenue	\$29,588	\$40,634	\$41,853
Federal Special Revenue	\$1,401	\$1,923	\$1,981
Other	\$45,604	\$62,630	\$64,509
Revenue:			
General Fund	\$11,780,678	\$16,374,588	\$17,074,281
State Special Revenue	(\$389,324)	(\$543,678)	(\$572,950)
Federal Special Revenue	\$1,401	\$1,923	\$1,981
Other	\$45,604	\$62,630	\$64,509
Net Impact on General Fund Balance:	\$11,366,059	\$16,237,013	\$16,935,526

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
X		Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached	X		Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. Beginning October 1, 2002, this bill would make the following changes to the lodging facility use tax:
 - a. The tax rate increases from 4% to 8%.
 - b. Lodging facility operators retain 5% of collections as an administrative allowance.
 - c. Reimbursements to state agencies increase from 4% of instate lodging expenses to 8% of instate lodging expenses.

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- d. 50% of collections, net of the Department of Revenue's appropriation for administration costs and state agency reimbursements is allocated to the general fund.
- e. The allocations in current law apply to the remaining revenue:
 - i. \$400,000 to the Montana heritage preservation and development account with the remainder allocated
 - ii. 1% to the Historical Society for roadside signs and historic sites
 - iii. 2.5% to the university system for travel research
 - iv. 6.5% to the department of fish, wildlife and parks for park maintenance
 - v. 67.5% to the department of commerce for tourism promotion
 - vi. 22.5% to regional and local tourism promotion
2. Lodging facility use tax collections in fiscal 2002 are \$11,946,857. Taxable accommodations charges for fiscal 2002 were \$298,671,430 ($\$11,946,857 = 4\% \times \$298,671,430$). The average growth rate of lodging facility use tax collections from 1995 to 2002 is 4.66%. Taxable accommodations charges will continue to grow by 4.66% per year.
3. In fiscal 2003, collections for three months will be at the current law rate of 4% of taxable accommodations charges. Collections for the remaining nine months of fiscal 2003 and for following fiscal years will be 7.6% of taxable accommodations charges (8% tax rate with 5% of collections retained by lodging facility operators). Table 1 shows taxable accommodations charges, tax collections under current law and under this bill, and the difference for fiscal years 2003 through 2005.

Table 1 Lodging Facility Use Tax Collections				
Fiscal Year	Taxable Accommodations Charges	Current Law Accommodations Tax Collections	Proposed Law Accommodations Tax Collections	Difference
2003	312,589,519	12,503,581	20,943,498	8,439,917
2004	327,156,190	13,086,248	24,863,870	11,777,623
2005	342,401,669	13,696,067	26,022,527	12,326,460

4. The Department of Revenue is appropriated \$133,256 from lodging facility use tax receipts in fiscal 2003 to cover costs of administering the tax. This appropriation will be \$140,000 in fiscal 2004 and in fiscal 2005.
5. Reimbursements to state agencies in fiscal 2002 are \$135,488, with \$36,339 (26.8%) to the general fund, \$38,301 (28.3%) to state special revenue accounts, \$1,813 (1.3%) to federal special revenue accounts and \$59,035 (43.6%) to other accounts, such as agency proprietary funds. Under current law state agency in-state lodging expenses will grow by 3% per year, and proportions of expenses paid by different fund types will be the same as in fiscal 2002. Under this bill, state agency lodging expenses will be higher because of the higher tax rate and reimbursements to state agencies will increase by the same amount. Table 2 shows tax collections, the Department of Revenue appropriation, state agency reimbursements and revenue to distribute under current law and under this bill. It also shows the differences.

Table 2
Lodging Facility Use Tax Reimbursements to State Agencies

Fiscal Year	Collections	Dept. of Revenue Tax Administration Cost	State Agency Travel Reimbursements				
			General Fund	State Special	Federal Special	Other	Revenue to Distribute
				Revenue Accounts	Revenue Accounts		
Current Law							
2003	\$12,503,581	\$133,256	\$37,429	\$39,450	\$1,867	\$60,806	\$12,230,772
2004	\$13,086,248	\$140,000	\$38,552	\$40,634	\$1,923	\$62,630	\$12,802,508
2005	\$13,696,067	\$140,000	\$39,709	\$41,853	\$1,981	\$64,509	\$13,408,015
Proposed Law							
2003	\$20,943,498	\$133,256	\$65,501	\$69,038	\$3,268	\$106,410	\$20,566,024
2004	\$24,863,870	\$140,000	\$77,104	\$81,268	\$3,847	\$125,260	\$24,436,392
2005	\$26,022,527	\$140,000	\$79,417	\$83,706	\$3,962	\$129,018	\$25,586,424
Difference							
2003	\$8,439,917	\$0	\$28,072	\$29,588	\$1,401	\$45,604	\$8,335,252
2004	\$11,777,623	\$0	\$38,552	\$40,634	\$1,923	\$62,630	\$11,633,883
2005	\$12,326,460	\$0	\$39,709	\$41,853	\$1,981	\$64,509	\$12,178,408

6. Table 3 shows the allocation of revenue net of the cost of administering the tax and reimbursements to state agencies under current law and under this bill, and it shows the differences.

Table 3
Distribution of Lodging Facility Use Tax Net Revenue

Fiscal Year	Revenue to Distribute	General Fund	Heritage Preservation	Signs and Historic Sites	Travel Research	State Parks	Statewide Travel Promotion	Regional and Local Travel Promotion
Current Law								
2003	\$12,230,772	\$0	\$400,000	\$118,308	\$295,769	\$769,000	\$7,985,771	\$2,661,924
2004	\$12,802,508	\$0	\$400,000	\$124,025	\$310,063	\$806,163	\$8,371,693	\$2,790,564
2005	\$13,408,015	\$0	\$400,000	\$130,080	\$325,200	\$845,521	\$8,780,410	\$2,926,803
Proposed Law								
2003	\$20,566,024	\$8,754,166	\$400,000	\$114,119	\$285,296	\$741,771	\$7,703,005	\$2,567,668
2004	\$24,436,392	\$12,218,196	\$400,000	\$118,182	\$295,455	\$768,183	\$7,977,282	\$2,659,094
2005	\$25,586,424	\$12,793,212	\$400,000	\$123,932	\$309,830	\$805,559	\$8,365,418	\$2,788,473
Difference								
2003	\$8,335,252	\$8,754,166	\$0	-\$4,189	-\$10,473	-\$27,229	-\$282,766	-\$94,255
2004	\$11,633,883	\$12,218,196	\$0	-\$5,843	-\$14,608	-\$37,980	-\$394,411	-\$131,470
2005	\$12,178,408	\$12,793,212	\$0	-\$6,148	-\$15,370	-\$39,962	-\$414,992	-\$138,331

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7. Allocations to the accounts that receive a percentage of revenue are lower under this bill. This bill allocates half of revenue to the general fund while revenue to distribute increases approximately 91%. This bill doubles the tax collected from consumers but allows lodging facility operators to keep 5% of the tax as an administrative allowance.
8. Beginning October 1, 2002, this bill would impose a tax of 8% on the base rental price of passenger vehicles rented for 30 days or less. The tax would not apply to the rental of insurance or repair loaners. Vendors are to retain 5% of the tax as an administrative allowance.
9. Taxable vehicle rental charges would be \$49.974 million in fiscal 2003, \$54.473 million in fiscal 2004 and \$53.017 million in fiscal 2005.
10. In fiscal 2003, the tax would apply for three quarters. Tax collections in fiscal 2003 would be \$2,998,440 ($3/4 \times 95\% \times 8\% \times \49.974 million). Tax collections would be \$4,117,840 in fiscal 2004 ($95\% \times 8\% \times \$54.473$ million) and \$4,241,360 in fiscal 2005 ($95\% \times 8\% \times \$53.017$ million).
11. The department of revenue would have to modify its computer systems to administer the new rental car tax. This would require expenditures of \$375,219 for system development in fiscal 2003 and ongoing expenditures of \$87,551 for system operation and maintenance.
12. The department of revenue would require an additional .25 FTE for administration and compliance work for the new rental car tax. This would require personal services expenditures of \$10,032 in fiscal 2003, \$10,171 in fiscal 2004 and \$10,194 in fiscal 2005. It would require additional operating expenses of \$1,296 in fiscal 2003, \$1,301 in fiscal 2004 and \$1,301 in fiscal 2005.

FISCAL IMPACT:

	FY2003 <u>Difference</u>	FY2004 <u>Difference</u>	FY2005 <u>Difference</u>
<u>FTE</u>	0.25	0.25	0.25

Expenditures:

Personal Services	\$10,032	\$10,171	\$10,194
Travel	\$104,664	\$143,739	\$148,051
Operating Expenses	<u>\$376,515</u>	<u>\$88,852</u>	<u>\$88,852</u>
TOTAL	\$491,211	\$242,762	\$247,097

Funding:

General Fund (01)	\$414,619	\$137,575	\$138,755
State Special Revenue (02)	\$29,588	\$40,634	\$41,853
Federal Special Revenue (03)	\$1,401	\$1,923	\$1,981
Other	<u>\$45,604</u>	<u>\$62,630</u>	<u>\$64,509</u>
TOTAL	\$491,211	\$242,762	\$247,097

Revenues:

General Fund (01)	\$11,780,678	\$16,374,588	\$17,074,281
State Special Revenue (02)			
All (travel reimbursements)	\$29,588	\$40,634	\$41,853
Signs and Historic Sites	(\$4,189)	(\$5,843)	(\$6,148)
Travel Research	(\$10,473)	(\$14,608)	(\$15,370)
State Parks	(\$27,229)	(\$37,980)	(\$39,962)
Statewide Travel Promotion	(\$282,766)	(\$394,411)	(\$414,992)

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Regional and Local Travel Promotion	(\$94,255)	(\$131,470)	(\$138,331)
Federal Special Revenue	\$1,401	\$1,923	\$1,981
Other	\$45,604	\$62,630	\$64,509

Net Impact to Fund Balance (Revenue minus Expenditure):

General Fund (01)	\$11,366,059	\$16,237,013	\$16,935,526
State Special Revenue (02)			
All (travel reimbursements)	\$0	\$0	\$0
Signs and Historic Sites	(\$4,189)	(\$5,843)	(\$6,148)
Travel Research	(\$10,473)	(\$14,608)	(\$15,370)
State Parks	(\$27,229)	(\$37,980)	(\$39,92)
Statewide Travel Promotion	(\$282,766)	(\$394,411)	(\$414,992)
Regional and Local Travel Promotion	(\$94,255)	(\$131,470)	(\$138,331)
Federal Special Revenue	\$0	\$0	\$0
Other	\$0	\$0	\$0

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. This bill would reduce funding for regional and local tourism promotion by \$94,255 in fiscal 2002, by \$131,470 in fiscal 2003 and by \$138,331 in 2004.

LONG-RANGE IMPACTS:

1. This bill would permanently increase revenue to the state general fund and permanently reduce revenue for signs and historic sites, travel research, state parks, statewide travel promotion and regional and local travel promotion.

TECHNICAL NOTES:

In estimating the system development costs the department has identified the following risks:

1. Estimated costs were derived without the use of ITSD/CIO recommended project methodology. Estimated elapsed time to implementation of 5 ½ months will introduce project risks and will not allow for the ITSD recommended project methodology. Adding this application onto the POINTS application may put at risk the goal of reaching POINTS stability by 12/31/02, and implementation of POINTS Phase II (Individual Income Tax and Corporate License Tax) in the fall of 2003.
2. The information technology (IT) project required to implement this legislation would require the review and approval of the Chief Information Officer (CIO) as provided for in 2-17-512, MCA.